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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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STATEMENT OF  
CHARLES A. BOWSER, COMPTROLLER GENERAL  
BEFORE THE  
SUBCOMMITTEE ON ECONOMIC STABILIZATION  
OF THE  
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS  
UNITED STATES HOUSE OF REPRESENTATIVES  
ON  
COST ACCOUNTING STANDARDS



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Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before the Subcommittee to discuss the reinstatement of the Cost Accounting Standards Board function and whether the Department of Defense (DOD) is the proper body to carry out this function.

BACKGROUND ON CASB

Public Law 91-379, established the Cost Accounting Standards Board to promulgate cost accounting standards for the purpose of assuring proper cost allocations under negotiated national defense contracts. Without a body of generally accepted cost accounting principles, there was concern that differing cost accounting practices followed by national defense contractors significantly impaired the usefulness of cost data utilized during contract negotiations and final settlements. It was observed in House Report 1455, May 23, 1968, that the absence of cost accounting standards was causing substantially increased procurement costs, contract awards without adequate safeguards against excess profits, and generally less favorable contract terms for the government.

The Board developed a set of 19 cost accounting standards to govern the allocation of all significant costs incurred by a contracting entity.

The standards apply to contractors and subcontractors under most negotiated national defense contracts in excess of \$100,000. This includes national defense contracts made by any federal agencies including all those entered into by the National Aeronautic and Space Administration (NASA) and by the atomic energy activities of the Department of Energy (DOE). In addition, because the standards are generally recognized as being the authoritative pronouncements on contract cost accounting, they have been adopted by the General Service Administration (GSA) in the Federal Procurement Regulations for use in many negotiated government contracts.

The Board became inactive on September 30, 1980, due to the lack of a fiscal year 1981 appropriation. In the several months prior to the Board becoming inactive and, for several months

after, there were extensive discussions about the need for and desirability of continuing the Board's function. Efforts to continue the Board failed and it ceased operations at the close of fiscal year 1980.

Concerned that the absence of an active Board function could have a negative impact on the standards and their implementation, then Comptroller General, Elmer B. Staats advised the heads of affected procurement agencies on October 3, 1980, that the standards retained their full force and effect of law despite the lapse of appropriations for the Board. GAO assumed custody of the Board files.

#### NEED FOR CONTINUING FUNCTION

As long as there are negotiated national defense contracts, there is a continuing need for an administrative body to attend to cost accounting standard matters. Accounting is a dynamic discipline. Conditions are in a continual state of flux requiring changes in the promulgated standards. With the passing of time, the need to update the standards becomes more critical.

It is increasingly more difficult for contractors, agency officials, and those charged with resolving CAS related disputes to continue to operate without the aid and benefit of an administering body.

#### DOD'S PROPOSED CAS FUNCTION

While we strongly support the need for the reconstitution of a Cost Accounting Standards Board function, we cannot support such a function in the Department of Defense. We have two major concerns.

Our first concern is with the independence of a board located in DOD. Independence was a primary feature sought by the Congress when it established the Cost Accounting Standards Board in 1970. We believe that it continues to be very important to insulate the responsibility for establishing, interpreting and updating the Standards from the influences associated with the procurement process. Satisfying the need for independence within an agency like DOD, with the largest procurement budget in the federal government, is problematic.

Another principle feature of Public Law 91-379 was to ensure uniformity and consistency followed by national defense contractors. Our concern in this area is that a Board function within DOD would detract from this feature. DOD has no regulatory authority over other agencies which are required to use or have chosen to use the standards. Since the proposed DOD Board function would have no authority to affect additions, deletions, and changes to the procurement regulations of NASA, DOE, and GSA, if one or more of these agencies finds itself unable or unwilling to adopt a DOD Board ruling, the resulting diversity would impact adversely on the uniformity and consistency of contractor accounting practices.

#### SUGGESTED LOCATION OF BOARD FUNCTION

Almost from inception of the Board as a legislative branch agency, questions arose regarding its constitutionality and, as I am sure you are aware, the so called Chadha decision has generated questions as to the legislative veto provisions contained in the Board's authorizing statute. In light of these

troublesome issues, we do not think it wise to provide for the needed administering body by simply reactivating the Cost Accounting Standards Board as such.

There are at least two options which we would support. The first option would be new legislation to empower the Comptroller General to perform duties and functions similar to those of the Board. Provisions could be made for an Advisory Board, with members from the interests as represented on the prior Board. They would advise the Comptroller General on the modifications of existing standards and the need to issue new standards. Issuances resulting from this activity would be binding on agencies. Reinstating the Board function in this manner would be accomplished while ensuring independence and providing accounting expertise.

Under the second option, the Comptroller General's issuances would be advisory, with each agency annually reporting to the Congress the reasons why any standard was not followed. The General Accounting Office would also have authority to audit

agency use of the standards. In appropriate cases, the Congress could always consider making a particular cost accounting standard binding through subsequent legislation.

#### COMMENTS ON DOD CONCEPT PAPER

You also asked for our comments on the DOD "concept paper" of January 18, 1984. While we cannot support a board in DOD, should DOD proceed to establish a board, care must be taken to ensure that there are appropriate safeguards to maintain the integrity of the standards which have been promulgated.

Our specific comments on DOD's proposal fall into five (5) basic areas.

##### (1) Assuring accounting expertise

The standards are founded in well-reasoned accounting theory. The Board and its staff put extensive effort into researching, drafting, soliciting comments, and revising drafts of the standards. The Board discussed at length the proposed standards

and was not satisfied until it had heard the salient arguments for or against all of the provisions in the standards. In all their efforts, the Board and its staff sought to maintain and promote good accounting as well as uniformity and consistency in accounting for costs on defense contracts.

We consider it imperative, that any continuing Board function, and its staff, have sufficient accounting expertise and experience to maintain the integrity of the promulgated standards.

(2) Independence

We have concerns, as I have already indicated, about the independence of a Board located in DOD, but the specific placement of the Board proposed by DOD exacerbates our concern. The proposed Chair of the Board is

the Deputy Under Secretary of Defense, Research and Engineering (Acquisition Management). The Deputy Under Secretary reports to the Under Secretary who has been named, as required by Executive Order 12352, DOD's Procurement Executive. We think this proposed organizational placement within DOD would seriously impair the Board's independence.

(3) Industry representative

We believe that having an industry representative on the proposed DOD Board would create a serious conflict of interest. While the former Cost Accounting Standards Board did have a member which ". . . shall be representative of industry . . .", the former Board was not in a position of entering into contractual relationships. We believe this

difference is significant and that inclusion of an industry representative could jeopardize the credibility of the proposed DOD Board.

(4) Term of DOD Board membership

The DOD proposal contemplates that Board members would be appointed for 2-year terms. The experience of the CAS Board indicates that proposed standards may well be in active consideration and development for a period of 2 years or longer. To provide continuity of policy and of cost accounting concepts, we believe Board member's terms should be longer than 2 years.

(5) GAO representation

The DOD paper provides that GAO be represented at both the Board and Committee level. I have concluded it would be inappropriate, particularly in view of our oversight

responsibilities to the Congress, for us to participate in the day-to-day deliberations of the Board and Committee. I believe it would be more appropriate for us to provide advice and comments to DOD in accordance with our normal oversight role.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or members of the Committee may have.

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